Government
Actuary's
Department

Technical Bulletin

Budget 2014

21 March 2014

On 19 March the Chancellor of the Exchequer, George Osborne, presented his 2014 Budget, setting out the Government's plans for the economy and public finances. This Bulletin provides an overview of key pensions and savings measures likely to be of interest to the readers of this bulletin.

Overview

The Chancellor announced various changes impacting on savings including fundamental changes to the taxation of defined contribution (DC) pension savings. He also confirmed the next steps on a number of measures announced at Budget 2013 and Autumn Statement 2013.

Defined contribution pensions taxation

Interim changes

The Chancellor announced a fundamental overhaul of the taxation of DC pensions with effect from April 2015. He also announced a number of associated interim changes that will be implemented under the current regime, specifically from 27 March 2014:

- the capped drawdown limit will increase from 120% to 150% of an equivalent annuity and the minimum income requirement for accessing flexible drawdown will be decreased from £20,000 to £12,000

- the trivial commutation limit on total pension savings will increase from £18,000 to £30,000

- the small pension pots allowance (that provides for benefits to be taken as a lump sum regardless of total pension wealth) will increase from £2,000 to £10,000 and the number of small pension pots that can be taken as lump sums will increase from two to three

Changes from April 2015

Budget 2014 announced fundamental changes to the taxation of registered DC pension schemes which will apply from April 2015. Details of the government's proposal are set out in a consultation paper '[Freedom and choice in pensions]' which is open for consultation until 11 June 2014. The main features of the revised regime are as follows:

- Once the minimum pension age is reached there will be no restriction on the manner in which the benefits can be taken. Individuals will have complete freedom on how and when to draw their benefits. This will give them flexibility to withdraw the entire amount, purchase an annuity or buy a drawdown product, or any combination of the above. A tax free lump sum will continue to be available; any remainder taken (whether in a lump sum, by annuity or drawdown) will be taxed at the individual's marginal rate.

- Where an individual buys a drawdown product there will no longer be any maximum or minimum amounts that must be drawn, nor any minimum income requirement.

- The minimum pension age will initially be age 55. It is proposed that this will then increase to age 57 by 2028 and then rise in line with increases to State Pension age (SPa) so it is always 10 years before SPa. Other models, such as adopting a minimum age of five years before SPa are also being considered. It is proposed that this change will apply to all registered pension schemes, including defined benefit (DB) schemes.

- Pension providers and trustees will have a new obligation to deliver a 'guidance guarantee' at retirement. Defined contribution members will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs. The Financial Conduct Authority will co-ordinate the development of a set of standards that the guidance will need to follow.

The paper also requests feedback on:

- how these changes should apply to hybrid schemes (which have both DC and DB elements)

- ways of ensuring people are equipped to find and understand appropriate advice, brokerage or comparison sites to enable them to choose an appropriate product, building on the individual guidance they receive

- other ways to support people in managing their finances in retirement

The government expects the changes to stimulate innovation and the development of new products to satisfy consumer needs and meet new social challenges such as social care funding.

Consequential changes for defined benefit pension schemes

Public service pension schemes

An increase in the number of people transferring their rights from unfunded public service DB schemes to DC schemes, to take advantage of the new tax rules, would expose the Exchequer to significantly higher costs on a 'current year' basis. This would need to be funded either by taxpayers or by imposing higher member contributions on current scheme members. The government considers that this would be unfair and accordingly intends to introduce legislation to remove the option to transfer from a public service DB scheme to a DC scheme, except in very limited circumstances. Transfers to and from other DB pension schemes would continue to be allowed.

It is proposed that this change will apply to all public service pension schemes. However, if a different approach is taken for other DB schemes, the government will consider how best to treat the funded elements of public service schemes.

Private sector DB schemes

Funded DB pension schemes are seen to play an important role in funding long-term investment in the UK economy and UK pension funds are major investors in longer term UK assets. Whilst the government would, in principle, welcome the opportunity to extend greater choice to members of private sector DB pension schemes, it is concerned that a large scale transfer (or anticipated transfer) of members of private sector DB schemes to DC schemes could have a detrimental impact on the wider economy. It therefore sets out a number of options for consultation, noting that the government will not offer choice at the expense of significant damage to the wider economy. These are:

- legislating to remove the right to transfer to a DC scheme, except in exceptional circumstances, as proposed with public service DB schemes

- continuing to allow members such transfers, but requiring that transferred funds are ring-fenced by the receiving pension scheme and subject to the existing DC tax framework

- placing a cap on the amount that people in DB schemes can transfer to DC schemes each year

- continuing to allow transfers, but requiring that any transfer to a DC scheme must be approved by the transferring scheme trustees

- preserving the right to transfer

Other options will also be considered.

Other pensions' changes
From 20 March 2014 HM Revenue & Customs (HMRC) was given new powers including measures to help prevent pension liberation schemes being registered and to make it easier for HMRC to de-register such schemes. Further changes from 1 September 2014 will allow HMRC to refuse to register a scheme, or de-register an existing scheme if, in HMRC's opinion, the scheme administrator is not a fit and proper person.

In addition, the Chancellor announced that the government will consult on options to simplify the dependants' pension scheme rules to ensure the rules apply fairly and to reduce administrative burdens, and will also consider whether individuals aged 75 and over should be able to claim tax relief on pension contributions.

Savings and Investment
The Chancellor announced various measures relating to savings and investment including:

New Individual Savings Accounts (NISA)
From 1 July 2014 all existing and new Individual Savings Accounts (ISAs) will become 'New ISA' (NISA). NISA investors will be able to transfer their existing investments from a stocks and shares account to a cash account or vice versa, although any amounts subscribed from 6 April 2014 will only be able to be transferred in their entirety. There will also be changes to allow investment in a wider range of securities. From 1 July 2014 the annual investment limit for the NISA will increase to £15,000 a year, which will apply irrespective of whether investment is in cash, stocks and shares or a combination. However, it will only be possible to pay into a maximum of one cash NISA and one stocks and shares NISA each year.

Abolition of 10% starting tax rate for savings
From 6 April 2015 the 10% starting rate of tax for savings will be reduced to nil and the maximum amount of an eligible individual's savings income that qualifies for this rate will be increased from £2,880 to £5,000. Consequently savers whose total taxable income is below the total of their tax-free personal allowance (which will rise to £10,500 from April 2015) plus the £5,000 starting rate limit will be able to register to have interest paid on their accounts without tax deducted.

Pensioner Savings Bonds
In January 2015 National Savings and Investments will launch fixed-rate savings bonds for people aged 65 or over. Precise details of the products will be announced at Autumn Statement 2014, taking into account prevailing market conditions at that time, but the intention is to pay 'market-leading' rates of interest which will be taxed in line with other savings income at the individual's marginal rate. The government's assumption, under current conditions, is that a one year bond paying 2.8% gross AER and a three year bond paying 4% gross AER will be available, with an investment limit of £10,000 per product.

Premium Bonds
The limit on the value of Premium Bonds an individual can hold will be increased from £30,000 to £40,000 with effect from 1 June 2014, with a further increase to £50,000 in the 2015-16 tax year. In addition, from August 2014, there will be two £1 million prizes available each month, rather than one.

Expected Gilt Issuance for 2014-15
Expected gilt issuance will fall in all classes, with the total planned issuance falling to £128.4 billion, from £153.4 billion in 2013-14. The government has chosen to maintain a similar proportion of issuance of index-linked gilts (planned to be £31 billion, down from £38.4 billion in 2013-14). Further details may be found in Debt and reserves management report 2014-15 published alongside the Budget.

Update on 2013 Budget & Autumn Statement announcements
Further to the announcements in Budget 2013 and Autumn Statement 2013 (see our Technical Bulletins) Mr Osborne reiterated some of the matters previously announced and confirmed:

- The new class of voluntary National Insurance (NI) contributions, class 3A, for those reaching State Pension age before 6 April 2016 will be open for 18 months from October 2015 and the maximum additional amount payable will be £25 a week. DWP will publish full details of the scheme shortly. (Further details are available in a Department for Work and Pensions (DWP) policy paper published in December 2013.)

- Class 2 NI contributions for the self-employed will be collected through Self Assessment.

- The previously announced cap on welfare spending (which does not apply to the state pension or 'automatic stabilisers') will be set at the level of the Office for Budget Responsibility's (OBR's) forecast, as published in the OBR's March 2014 'Economic and fiscal outlook' for the years 2015-16 to 2018-19. The cap will be included in the updated 'Charter for Budget Responsibility'.

- The Help to Buy: equity loan scheme will be extended to March 2020.

- The government organisations participating in the 'pay bill control' pilot will be the Intellectual Property Office and the Department for Environment, Food and Rural Affairs (DEFRA).

Budget Documents and OBR Reports
The Chancellor's Budget statement, the full Budget report and other main Budget documents are available online. Further documents concerning taxation are available on HMRC's Budget pages.

Alongside the Budget and supporting documents the OBR published its Economic and fiscal outlook. Further documents may be found on the OBR's website.

If you would like to discuss any of these issues in more detail or have any other questions please get in touch with your usual GAD contact.